TECEP® Test Description for FIN-321-TE

SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT

Security Analysis and Portfolio Management presents an overview of investments with a focus on asset types, financial instruments, security markets, and mutual funds. The course provides a foundation for students entering the fields of investment analysis or portfolio management. This course examines portfolio theory, debt and equity securities, and derivative markets. It provides information on sound investment management practices, emphasizing the impact of globalization, taxes, and inflation on investments. It also provides guidance in evaluating the performance of an investment portfolio. (3 credits)

- **Test format:** 80 multiple choice questions (1 point each).
- **Passing score:** 60% (48/80 points). Your grade will be reported as CR (credit) or NC (no credit).
- **Time limit:** 2 hours

Note: Scientific, graphing or financial calculator allowed (no phones or tablets); one sheet of scratch paper at a time, can request additional sheets.

OUTCOMES ASSESSED ON THE TEST

- Discuss financial assets, financial markets, and the role of financial intermediaries
- Differentiate among equity and debt markets and stock and bond market indexes
- Assess the mechanics of various securities markets, mutual funds/investment companies, and the roles of investment bankers and brokers
- Calculate the expected rate of return from risky and risk-free investment portfolios
- Analyze portfolio theory, including measures of risk
- Discuss bond characteristics and compute bond prices and yields
- Explain equity valuation models
- Evaluate the effects of equity expense calculations, including EPS, P/E, dividends, stock betas
- Describe options and futures markets

- Examine investment management practices, including risk-adjusted rate of return, international investing, diversification
- Identify hedge fund investment strategies
- Analyze lifetime savings plans and tax strategies

TOPICS ON THE TEST AND THEIR APPROXIMATE DISTRIBUTION

The table below indicates the main topics covered by this exam and the approximate percentage of the exam devoted to each main topic. Under the main topic heading is a list of related–but more specific–topics. It is important to review these topics to determine how much prior knowledge you have and/or how much additional study is necessary.

Topic	Percentage
The Environment and Tools of Investing • Mechanics of buying and selling securities • Investment banking • Taxation and tax shelters • Risk and its measurement • Diversification • Time value of money • Efficient markets • Regulation	**(25%)**
Investing in Fixed Income Securities • Variety of corporate debt • Federal government bonds • Municipal bonds • Preferred stock • Valuation of fixed income securities • Yields: current yield, yield to maturity	**(20%)**
Investing in Common Stock • Aggregate measures of stock prices • Historical rates of return • Valuation of common stock • Analysis of financial statements • Fundamentals and technical analysis	**(20%)**
Investing in Options, Futures, and Nonfinancial Assets • Puts and calls • Warrants	**(20%)**

• Commodities • Real estate • Collectibles • Precious metals	
Investment Companies and the Construction of Diversified Portfolios • Closed-end investment companies • Mutual funds • Returns earned by investment companies	**(15%)**

STUDY MATERIALS

Below is a list of recommended study materials to help prepare you for your exam. Most textbooks in this subject include the topics listed above and will prepare you for the test. If you choose another text, be sure to compare its table of contents against the topic list to make sure all topics are covered.

Title
Bodie, Z., Kane, A., & Marcus, A. *Essentials of Investments*. Current edition. New York, NY: McGraw-Hill/Irwin.
Reilly, F. K., & Brown, K. C. *Investment Analysis and Portfolio Management*. Current edition. Mason, OH: South-Western/Cengage Learning.

In addition to the resources above, you may wish to study the open resources listed below. We encourage you to explore these resources to make sure that you are familiar with multiple perspectives on the topics above. All of these resources are openly licensed, which means that they are free to be revised, remixed, reused, redistributed, and retained, so long as their unique terms are followed. You can learn more about open licensing here.

Title	License
Geanakoplos, J. *ECON-251 Financial Theory* (Yale University: Open Yale Courses), http://oyc.yale.edu.	CC BY-NC-SA
Finance for Managers (v. 0.1). (2012). 2012 Book Archive.	CC BY-NC-SA
Wright, R. E. (2012). *Finance, Banking, and Money* (v. 2.0). 2012 Book Archive.	CC BY-NC-SA

SAMPLE QUESTIONS

The questions below are designed to help you study for your TECEP. Answering these questions does not guarantee a passing score on your exam.

Please note that the questions below **will not** appear on your exam.

1. A liquid asset may

    a. be converted into cash
    b. be converted into cash with little chance of loss
    c. not be converted into cash
    d. not be converted without loss

2. A negatively-sloped yield curve suggests that

    a. short-term rates exceed long-term rates; and the Federal Reserve is following a tight monetary policy
    b. short-term rates exceed long-term rates, and the Federal Reserve is following an easy monetary policy
    c. long-term rates exceed short-term rates, and the Federal Reserve is following a tight monetary policy
    d. long-term rates exceed short-term rates, and the Federal Reserve is following an easy monetary policy

3. What does the market price of a bond depend on?

    a. The coupon rate and terms of the indenture
    b. The coupon rate and maturity date
    c. The terms of the indenture, and maturity date
    d. The coupon rate, terms of the indenture, and maturity date

4. While bond prices fluctuate,

    a. yields are constant
    b. coupons are constant
    c. the spread between yields is constant
    d. short-term bond prices fluctuate even more

5. If interest rates rise, the price of preferred stock

    a. is not affected
    b. rises
    c. falls
    d. may rise or fall

6. Which of the following is true of municipal government debt?
    a. It pays more interest than corporate debt.
    b. It is often purchased by individuals with high incomes.
    c. It is exempt from estate taxation.
    d. It is not subject to interest rate risk.
7. The use of financial leverage by a firm may be measured by the
    a. ratio of debt to total assets
    b. firm's beta coefficient
    c. firm's retention of earnings
    d. ratio of the price of the firm's stock price to its earnings
8. Which of the following is an example of a depreciable asset?
    a. Land
    b. Cash
    c. Accounts receivable
    d. Equipment
9. As the debt ratio increases,
    a. fewer assets are debt-financed, and the ratio of debt-to-equity increases
    b. fewer assets are debt-financed, and the ratio of debt-to-equity decreases
    c. more assets are debt-financed, and the ratio of debt-to-equity increases
    d. more assets are debt-financed, and the ratio of debt-to-equity decreases
10. The net asset value of a mutual fund investing in stock rises with
    a. higher stock prices
    b. lower equity values
    c. an increased number of shares
    d. increased liabilities
11. What do activity ratios measure?
    a. How rapidly assets flow through the firm
    b. How frequently the firm's stock is traded
    c. The employee turnover rate
    d. The profitableness of accounts receivable

12. What is a call?

    a. An option to sell stock at a specified price
    b. An option to buy stock at a specified price
    c. An option to sell stock on a specified date
    d. An option to buy stock on a specified date

13. Which of the following is on the horizontal axis of the Security Market Line?

    a. Standard deviation
    b. Beta
    c. Expected return
    d. Required return

14. You own a large orange grove and will be harvesting from November through April. To hedge against price risks you should

    a. sell orange juice contracts with a November delivery
    b. buy orange juice contracts with a November delivery
    c. sell orange juice contracts with delivery dates between November and April
    d. buy orange juice contracts with delivery dates between November and April

15. Financial leverage may increase a corporation's risk because

    a. operating income may stabilize
    b. the firm has fixed obligations to meet
    c. more common stock is outstanding
    d. dividends must be paid

16. What is the value of a call on the expiration date, if on that date the price of the stock is $25 and the exercise price is $26?

    a. $-1
    b. $0
    c. $1
    d. $25

17. Equity does NOT include

    a. cash and paid-in capital
    b. common stock and paid-in capital
    c. paid-in capital and retained earnings
    d. common stock, paid-in capital and retained earnings

18. What is the price of a stock estimated to pay a dividend of $.60 next year, if the dividend growth rate is 5% and the appropriate discount rate is 8%?

    a. $18
    b. $19
    c. $20
    d. $21

19. Corporate bond indenture agreements often specify each of the following EXCEPT

    a. bond call provisions
    b. sinking fund requirements
    c. restrictions on the corporation's divided payments
    d. assets on which debenture issues are collaterized

20. If you were confident that the price of stock X would drop dramatically within two months, which of the following investment transactions would yield the highest return on your investment?

    a. Purchase stock X
    b. Sell stock X short
    c. Purchase a call on stock X
    d. Purchase a put on stock X

21. Which of the following choices describes a traditional IRA?

    a. A tax-deferred retirement account for individuals not covered by a corporate pension plan
    b. A taxable retirement account for individuals not covered by a corporate pension plan
    c. A means to generate tax-free income
    d. A means to increase current income

22. The common stock of TESU Corporation has been trading in a narrow range around $50 per share for months, and you believe it will stay in that range for the next 3 months. A 3-month put option with an exercise price of $50 sells for $4. A call with the same expiration date and exercise price sells for $4.

    What simple options strategy using a put and a call will take advantage of your belief about the stock price's future movement?

    a. Sell a call
    b. Sell a straddle
    c. Buy a put
    d. Buy a straddle

ANSWERS TO SAMPLE QUESTIONS

1. (**b**)
2. (**a**)
3. (**d**)
4. (**b**)
5. (**c**)
6. (**b**)
7. (**a**)
8. (**d**)
9. (**c**)
10. (**a**)
11. (**a**)
12. (**b**)
13. (**b**)
14. (**c**)
15. (**b**)
16. (**b**)
17. (**a**)
18. (**c**)
19. (**d**)
20. (**d**)
21. (**a**)
22. (**b**)